



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

**NEWS RELEASE**

FOR RELEASE

April 5, 2006

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Red Oak, Iowa.

The City's receipts totaled \$6,874,608 for the year ended June 30, 2005, an 8 percent decrease from 2004. The receipts included \$2,102,394 in property tax, \$89,074 from tax increment financing, \$2,218,147 from charges for service, \$633,316 from operating grants, contributions and restricted interest, \$1,129,420 from capital grants, contributions and restricted interest, \$454,497 from local option sales tax, \$102,811 from unrestricted interest on investments and \$144,949 from other general receipts.

Disbursements for the year totaled \$7,731,000, a 28 percent increase over the prior year, and included \$1,731,635 for public safety, \$1,462,758 for debt service and \$1,916,596 for capital projects. Disbursements for business type activities totaled \$1,144,443. The significant increase in disbursements is due primarily to the purchase of land for expansion of the cemetery, a Community Economic Betterment grant passed through to Rails Company, Inc. for a rail spur project, increased disbursements for street and other projects and general obligation notes called and redeemed early.

A copy of the report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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**CITY OF RED OAK**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2005**

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**City of Red Oak**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James A. Johnson	Mayor	Jan 2006
Tom Pratt (Elected)	Council Member	Jan 2006
Joddey Hicks	Council Member	(Resigned)
Bill Billings (Appointed)	Council Member	Jan 2006
Roger Waggener	Council Member	Jan 2008
Ivan Craig	Council Member	Jan 2008
Bill Haufle	Council Member	Jan 2008
Brad Wright	Administrator	Indefinite
Mary Bolton	Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Red Oak's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

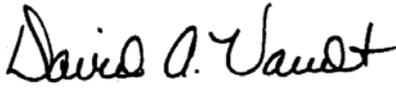
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 9, 2006 on our consideration of the City of Red Oak's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Red Oak's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 9, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Red Oak provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2005 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 10.7%, or approximately \$626,000, from fiscal 2004 to fiscal 2005. Property tax decreased approximately \$117,000 and note/loan proceeds decreased \$1,285,520.
- Disbursements for governmental activities increased 38.6%, or approximately \$1,834,000, in fiscal 2005 from fiscal 2004. Public safety, debt service and capital projects disbursements increased approximately \$30,000, \$526,000 and \$1,270,000, respectively.
- The City's total cash basis net assets decreased 11.8%, or approximately \$856,000, from June 30, 2004 to June 30, 2005. Of this amount, the net assets of the governmental activities decreased approximately \$1,179,000 and the net assets of the business type activities increased by approximately \$323,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the landfill. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statement provides a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

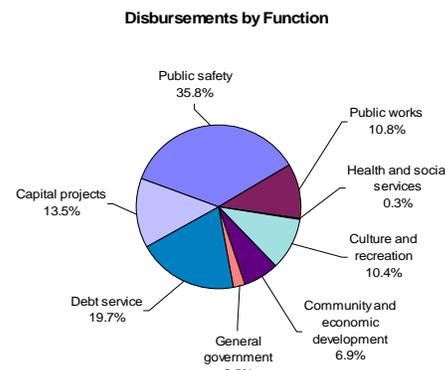
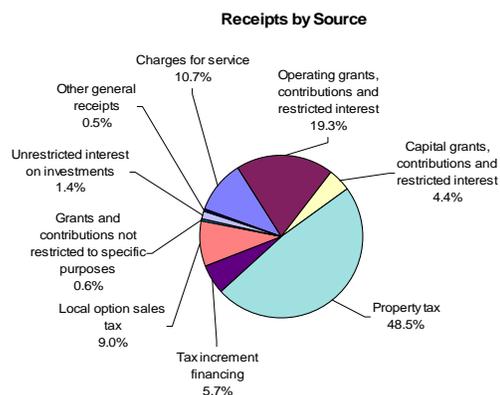
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Landfill Funds.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, from \$5.378 million to \$4.198 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 608,306	488,478
Operating grants, contributions and restricted interest	624,770	882,594
Capital grants, contributions and restricted interest	1,129,420	201,422
General receipts:		
Property tax	2,102,394	2,219,093
Tax increment financing	89,074	259,745
Local option sales tax	454,497	412,181
Grants and contributions not restricted to specific purposes	5,402	25,851
Unrestricted interest on investments	86,097	62,138
Note proceeds	-	1,259,520
Loan proceeds	-	26,000
Other general receipts	134,986	23,316
Transfers, net	172,260	210,736
<b>Total receipts and transfers</b>	<b>5,407,206</b>	<b>6,071,074</b>
Disbursements:		
Public safety	1,731,635	1,702,066
Public works	576,699	514,779
Health and social services	16,098	13,339
Culture and recreation	690,503	492,602
Community and economic development	76,827	328,252
General government	115,441	118,595
Debt service	1,462,758	936,457
Capital projects	1,916,596	646,885
<b>Total disbursements</b>	<b>6,586,557</b>	<b>4,752,975</b>
Increase (decrease) in cash basis net assets	(1,179,351)	1,318,099
Cash basis net assets beginning of year	5,377,639	4,059,540
Cash basis net assets end of year	\$ 4,198,288	5,377,639



The City's total receipts for governmental activities decreased by 10.7%, or \$625,392. The total cost of all programs and services increased by \$1,833,582, or 38.6%, with no new programs added this year. The significant decrease in receipts was primarily the result of proceeds received in the prior year from the issuance of general obligation notes offset by an increase of approximately \$928,000 in capital grants, contributions and restricted interest during fiscal 2005. During FY05, the City received reimbursement of \$296,350 for airport land purchased in FY02, \$445,000 in CEBA grants and Iowa Department of Transportation grants of approximately \$189,000. The significant increase in disbursements was primarily the result of the early redemption of \$510,000 of general obligation notes and using proceeds of notes issued in the prior year for street projects.

The City increased property tax rates for 2005 by \$0.24688 per \$1,000 of taxable valuation, or 1.34%. However, the City's property tax receipts decreased overall by approximately \$117,000 in 2005 due to a decrease in taxable property valuations. Based on changes in the total taxable valuation for FY06, property tax receipts are budgeted to decrease by \$8,373 next year.

The cost of all governmental activities this year was \$6.59 million compared to \$4.75 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$4.2 million because some of the cost was paid by those directly benefited from the programs (\$608,306) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,754,190).

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 919,049	917,144
Sewer	603,389	594,486
Landfill	72,544	71,618
Operating grants, contributions and restricted interest	8,546	20,315
Other general receipts	36,134	43,221
Total receipts	<u>1,639,662</u>	<u>1,646,784</u>
Disbursements and transfers:		
Water	641,415	644,502
Sewer	467,994	581,316
Landfill	35,034	37,557
Transfers	172,260	210,736
Total disbursements and transfers	<u>1,316,703</u>	<u>1,474,111</u>
Increase in cash balance	322,959	172,673
Cash basis net assets beginning of year	<u>1,854,395</u>	<u>1,681,722</u>
Cash basis net assets end of year	<u>\$ 2,177,354</u>	<u>1,854,395</u>

Total business type activities receipts decreased slightly by \$7,122, or less than one percent. The cash balance increased by approximately \$323,000 from the prior year due to a reduction in disbursements. Total disbursements and transfers for the fiscal year decreased by \$157,408, or 10.7%. The decrease in disbursements is primarily due to an emergency sewer repair in the prior year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Red Oak completed the year, its governmental funds reported a combined fund balance of \$4,198,288, a decrease of more than \$1,179,000 from last year's total of \$5,377,639. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$49,287 from the prior year to \$1,165,156. The decrease is attributable to an overall increase in receipts of \$77,044 offset by an increase in disbursements of \$260,557. Culture and recreation disbursements increased \$196,951, primarily due to the purchase of land for cemetery expansion and payment of grant funding received in the prior year to Performing Arts and Education Association of Southwest Iowa, Inc. for a building.
- The Road Use Tax Fund cash balance increased by \$101,469 to \$1,081,811 during the fiscal year. This increase is attributable to holding disbursements to an amount less than the allocation received for road use tax.
- The Employee Benefits Fund cash balance increased by \$13,673 to \$495,864 during the fiscal year. The increase is primarily the result of decreased costs for health insurance in the public safety function due to fewer officers on duty.
- The Local Option Sales Tax Fund cash balance increased by \$152,859 to \$750,878 during the fiscal year. Although disbursements increased by \$40,916 over last year, total disbursements of \$160,097 were less than local option sales tax collections for the year.
- The Debt Service Fund cash balance decreased by \$625,140 to \$162,443 during the fiscal year. This decrease was due to a \$158,904 decrease in property and other City tax and an increase in bond principal payments of \$510,000 to call and repay two bond issues early.
- The Capital Projects Fund cash balance decreased by \$822,797 to (\$54,584) during the fiscal year. The City spent a total of \$1,916,596 on construction projects in the current year, compared to only \$639,038 in the prior year, using bond proceeds from the prior year and various grants and donations received in the current year.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$140,681 to \$667,054, due primarily to an increase in water rates last year and reductions in debt service payments and transfers out from the prior year.
- The Sewer Fund cash balance increased by \$144,768 to \$1,387,880. The increase was due to fewer expenses and no transfers out to other funds. The City had an emergency sewer repair last year of \$117,000.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 16, 2005 and resulted in an increase in operating disbursements of \$127,000 for public safety and culture and recreation. The City had sufficient cash balances to absorb these additional costs. However, disbursements exceeded the amounts budgeted in the health and social service, culture and recreation and debt service functions.

## **DEBT ADMINISTRATION**

At June 30, 2005, the City had approximately \$4,050,000 in outstanding notes and other long-term debt, compared to approximately \$5,286,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2005	2004
General obligation notes	\$ 3,870,000	4,930,000
Revenue notes	165,000	330,000
Bank loan	15,298	26,000
Total	\$ 4,050,298	5,286,000

The decrease in debt resulted from calling two notes before maturity.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,885,298 is significantly below its constitutional debt limit of \$9,238,000.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Red Oak's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees charged for various City activities. One of those factors is the economy. One of the City's major employers has announced closing the plant resulting in the loss of many jobs.

The City's indebtedness is being reviewed on a regular basis. Several general obligation notes have been called in the last two years, resulting in the debt service levy being reduced from \$4.58341 per \$1,000 of taxable valuation in fiscal year 2005 to \$3.91179 per \$1,000 of taxable valuation in fiscal year 2006.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Bolton, City Clerk, 601 N. Sixth Street, Red Oak, Iowa 51566-0475.

## **Basic Financial Statements**

City of Red Oak

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,731,635	471,637	72,126	36,621
Public works	576,699	32,050	516,806	-
Health and social services	16,098	-	-	-
Culture and recreation	690,502	88,872	28,838	-
Community and economic development	76,827	3,014	-	-
General government	115,442	12,733	6,000	-
Debt service	1,462,758	-	-	-
Capital projects	1,916,596	-	1,000	1,092,799
Total governmental activities	6,586,557	608,306	624,770	1,129,420
Business type activities:				
Water	641,415	933,908	8,546	-
Sewer	467,994	603,389	-	-
Landfill	35,034	72,544	-	-
Total business type activities	1,144,443	1,609,841	8,546	-
Total	\$ 7,731,000	2,218,147	633,316	1,129,420
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Sale of capital assets				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Special levies				
Streets				
Urban renewal purposes				
Local option sales tax				
Library bequests				
Fire department donations				
Police donations				
Cemetery perpetual care				
Debt service				
Water and sewer improvements				
Landfill purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,151,251)	-	(1,151,251)
(27,843)	-	(27,843)
(16,098)	-	(16,098)
(572,794)	-	(572,794)
(73,813)	-	(73,813)
(96,707)	-	(96,707)
(1,462,758)	-	(1,462,758)
(822,797)	-	(822,797)
(4,224,061)	-	(4,224,061)
-	301,039	301,039
-	135,395	135,395
-	37,510	37,510
-	473,944	473,944
(4,224,061)	473,944	(3,750,117)
1,578,577	-	1,578,577
523,817	-	523,817
89,074	-	89,074
454,497	-	454,497
5,402	-	5,402
86,097	16,714	102,811
30,451	-	30,451
104,535	4,561	109,096
172,260	(172,260)	-
3,044,710	(150,985)	2,893,725
(1,179,351)	322,959	(856,392)
5,377,639	1,854,395	7,232,034
\$ 4,198,288	2,177,354	6,375,642
\$ 495,864	-	495,864
1,081,811	-	1,081,811
187,980	-	187,980
750,878	-	750,878
147,006	-	147,006
27,419	-	27,419
19,013	-	19,013
188,767	-	188,767
162,443	149,083	311,526
-	370,000	370,000
15,412	113,565	128,977
1,121,695	1,544,706	2,666,401
\$ 4,198,288	2,177,354	6,375,642

City of Red Oak

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 919,785	-	531,273	-
Tax increment financing	-	-	-	-
Other city tax	62,702	-	34,681	312,956
Licenses and permits	80,412	-	-	-
Use of money and property	97,126	-	-	-
Intergovernmental	93,738	515,255	-	-
Charges for service	554,369	-	-	-
Special assessments	-	-	-	-
Miscellaneous	75,497	-	4,179	-
Total receipts	1,883,629	515,255	570,133	312,956
Disbursements:				
Operating:				
Public safety	1,180,929	-	355,856	160,097
Public works	61,657	413,786	101,256	-
Health and social services	16,098	-	-	-
Culture and recreation	598,777	-	89,812	-
Community and economic development	-	-	-	-
General government	105,906	-	9,536	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	1,963,367	413,786	556,460	160,097
Excess (deficiency) of receipts over (under) disbursements	(79,738)	101,469	13,673	152,859
Other financing sources:				
Sale of capital assets	30,451	-	-	-
Operating transfers in	-	-	-	-
Total other financing sources	30,451	-	-	-
Net change in cash balances	(49,287)	101,469	13,673	152,859
Cash balances beginning of year	1,214,443	980,342	482,191	598,019
Cash balances end of year	\$ 1,165,156	1,081,811	495,864	750,878
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	1,165,156	-	-	-
Special revenue funds	-	1,081,811	495,864	750,878
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 1,165,156	1,081,811	495,864	750,878

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
492,559	-	28,294	1,971,911
-	-	89,074	89,074
172,799	-	1,842	584,980
-	-	-	80,412
-	-	2,544	99,670
-	937,858	-	1,546,851
-	-	3,763	558,132
-	9,947	-	9,947
-	145,994	37,848	263,518
665,358	1,093,799	163,365	5,204,495
-	-	34,753	1,731,635
-	-	-	576,699
-	-	-	16,098
-	-	1,913	690,502
-	-	76,827	76,827
-	-	-	115,442
1,462,758	-	-	1,462,758
-	1,916,596	-	1,916,596
1,462,758	1,916,596	113,493	6,586,557
(797,400)	(822,797)	49,872	(1,382,062)
-	-	-	30,451
172,260	-	-	172,260
172,260	-	-	202,711
(625,140)	(822,797)	49,872	(1,179,351)
787,583	768,213	546,848	5,377,639
162,443	(54,584)	596,720	4,198,288
162,443	-	-	162,443
-	-	-	1,165,156
-	-	407,953	2,736,506
-	(54,584)	-	(54,584)
-	-	188,767	188,767
162,443	(54,584)	596,720	4,198,288

**Exhibit C**

## City of Red Oak

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Landfill	
Operating receipts:				
Charges for service	\$ 919,049	603,389	72,544	1,594,982
Miscellaneous	23,405	-	-	23,405
Total operating receipts	942,454	603,389	72,544	1,618,387
Operating disbursements:				
Business type activities	641,415	467,994	35,034	1,144,443
Excess of operating receipts over operating disbursements	301,039	135,395	37,510	473,944
Non-operating receipts:				
Interest on investments	8,714	8,000	-	16,714
Miscellaneous	3,188	1,373	-	4,561
Total non-operating receipts	11,902	9,373	-	21,275
Excess of receipts over disbursements	312,941	144,768	37,510	495,219
Transfers out	(172,260)	-	-	(172,260)
Net change in cash balances	140,681	144,768	37,510	322,959
Cash balances beginning of year	526,373	1,243,112	84,910	1,854,395
Cash balances end of year	\$ 667,054	1,387,880	122,420	2,177,354
<b>Cash Basis Fund Balances</b>				
Reserved for:				
Debt service	\$ 149,083	-	-	149,083
Improvements	100,000	270,000	-	370,000
Landfill purposes	-	-	113,565	113,565
Unreserved	417,971	1,117,880	8,855	1,544,706
Total cash basis fund balances	\$ 667,054	1,387,880	122,420	2,177,354

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2005

**(1) Summary of Significant Accounting Policies**

The City of Red Oak is a political subdivision of the State of Iowa located in Montgomery County. It was first incorporated in 1901 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Red Oak has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Red Oak and its blended component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The following component unit is legally separate from the City, but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate fund.

The Red Oak Volunteer Fire and Rescue Association, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting the Red Oak Fire Department. In accordance with criteria set by the Governmental Accounting Standards Board, the Red Oak Volunteer Fire and Rescue Association, Inc. meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City.

### Jointly Governed Organizations

The City participates in several jointly governed organizations for which the City is not financially accountable or the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Montgomery County Assessor's Conference Board and the Southwest Iowa Planning Council (SWIPCO) Regional Planning Commission.

The City also participates in the Montgomery County Landfill Association, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

### Related Organizations

The City is responsible for appointing a majority of the voting members of the Low Rent Housing Board and the Montgomery County Public Safety Communications Commission, but the City's accountability for these organizations does not extend beyond making the appointments.

## B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for property tax levied to finance the payment of employee benefits.

The Local Option Sales Tax Fund is used to account for receipts from the tax authorized by referendum and used for public safety and property tax relief.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Red Oak maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are incurred, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the health and social services, culture and recreation and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$48,782 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

**(3) Long Term Debt**

Notes Payable

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 515,000	183,107	165,000	3,960	680,000	187,067
2007	535,000	159,160	-	-	535,000	159,160
2008	565,000	133,645	-	-	565,000	133,645
2009	590,000	106,190	-	-	590,000	106,190
2010	395,000	77,468	-	-	395,000	77,468
2011-2015	720,000	208,048	-	-	720,000	208,048
2016-2019	550,000	65,785	-	-	550,000	65,785
Total	\$ 3,870,000	933,403	165,000	3,960	4,035,000	937,363

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue sinking account for the purpose of making the note principal and interest payments when due.

- (c) A water revenue reserve account shall be established with a specific established balance. This account is restricted for the purpose of paying for principal and interest when funds in the sinking account are inadequate.
- (d) Monthly transfers of \$1,000 shall be made to a water capital improvement account until \$100,000 has been accumulated. This account is restricted for the purpose of paying for any capital improvements and extensions to the system or for principal and interest payments which the sinking account might be unable to make.

In June 2005, the City called two essential corporate purpose notes dated April 1, 1998 and November 1, 2002. The note dated April 1, 1998 was redeemed in its entirety by June 30, 2005 and the note dated November 1, 2002 was partially redeemed.

Bank Loan

On October 14, 2003, the Red Oak Volunteer Fire and Rescue Department obtained a bank loan for \$26,000 to purchase a fire truck. The loan is to be repaid in five annual installments of \$6,019, including interest at 5 percent per annum, beginning October 15, 2004. During the year ended June 30, 2005, the Red Oak Volunteer Fire and Rescue Association paid \$10,702 of principal on the loan, leaving a balance at June 30, 2005 of \$15,298. The balance of the loan was paid in January 2006.

**(4) Development Agreements**

The City has entered into three development agreements to assist in certain urban renewal projects.

The first agreement, entered into on November 18, 2002, requires the City to make economic development payments to the developer to assist with the cost of constructing a grain storage and handling system (project). Pursuant to the agreement, the economic development payments will begin June 1, 2005 and will continue for four additional fiscal years. Each payment shall be a percentage of the total incremental property tax received by the City with respect to the project, as follows:

	<u>Payable</u>
Year 1 - 75%	June 1, 2005
Year 2 - 60%	June 1, 2006
Year 3 - 45%	June 1, 2007
Year 4 - 30%	June 1, 2008
Year 5 - 15%	June 1, 2009

Payments under this agreement are subject to the payment of property tax by the developer. During the year ended June 30, 2005, the City made economic development payments totaling \$22,901 pursuant to the agreement.

The second agreement, entered into on April 21, 2003, requires the City to make economic development payments to the developer for certain downtown development projects. The payments, totaling \$300,000, are to be made in semi-annual installments of \$15,000, beginning June 1, 2003 and ending December 1, 2012. The payments are payable solely from the incremental property tax received by the City which are attributable to the Red Oak Downtown Urban Renewal Area and are only made to the extent the City Council determines tax increment revenues are available. During the year ended June 30, 2005, the City made economic development payments of \$30,000 pursuant to this agreement.

The third agreement, entered into on January 17, 2005, requires the City to make economic development payments, not to exceed \$90,000, to the developer to assist with the cost of constructing a white corn storage bin and a soybean storage bin (project). Pursuant to the agreement, the economic development payments will begin June 1, 2007 and will continue through June 30, 2011. Each payment shall be a percentage of the total incremental property tax received by the City with respect to the project, as follows:

	<u>Payable</u>
Year 1 - 75%	June 1, 2007
Year 2 - 60%	June 1, 2008
Year 3 - 45%	June 1, 2009
Year 4 - 30%	June 1, 2010
Year 5 - 15%	June 1, 2011

These agreements are not a general obligation of the City. However, the amount payable in the succeeding year is subject to the constitutional debt limitation of the City.

**(5) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$112,986, \$111,406 and \$113,797, respectively, equal to the required contributions for each year.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and sick leave payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 63,000
Compensatory time	17,000
Sick leave	<u>39,000</u>
Total	<u>\$ 119,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Enterprise: Water	<u>\$ 172,260</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(8) Risk Management**

The City of Red Oak is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2005 were \$123,094.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with the airport, employee blanket bond and workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Industrial Development Revenue Bonds**

The City has issued a total of \$1,050,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$760,000 is outstanding at June 30, 2005. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

**(10) Treasurer's Debt Service Account**

The City deposits into a Treasurer's Debt Service Account sufficient funds to redeem note indebtedness and interest when due. These deposits are recorded as disbursements at the time of payment and subsequent activity and resulting balances are not recorded by the City. At June 30, 2005, the Treasurer's Debt Service Account had a balance of \$5.

**(11) Library Bequests**

The Library has received various restricted bequests. At June 30, 2005, the Library Bequest Fund included a total of \$38,000 of memorials, as follows:

Name of Memorial	Amount	Purpose
Julia Lane	\$ 10,000	Interest to be used for the purchase of reference books.
Darwin Merritt	1,000	Interest to be used for the purchase of books and furniture.
Mary Windle	1,000	Interest to be used for the purchase of "standard authors" to be placed in a separate "Mary Windle Collection."
Herbert C. Lane	1,000	Interest to be used for the purchase of reference books for the "Lane Memorial Collection."
Virginia A. Petty	<u>25,000</u>	Interest to be used to purchase library materials.
Total	<u>\$ 38,000</u>	

**(12) Komarek Trust**

The City receives \$600 annually from the trustee of the Komarek Trust to be used for maintenance of cemetery chapel grounds and roadways and for placement of flowers on certain graves. During the year ended June 30, 2005, the City spent \$81 of these funds for flowers and statues. At June 30, 2005, the balance in the Special Revenue, Komarek Trust Fund totaled \$10,377.

**(13) Contingent Liability**

The City is subject to a potential liability of \$735,100 for financial security in connection with its former participation in the operation of the Red Oak Landfill. The probability of loss, if any, is indeterminable.

**(14) Commitments**

Construction commitments for airport and street projects at June 30, 2005 totaled \$980,006. During the year, \$896,950 was paid under these construction commitments. The balance of \$83,056 will be paid as work on the projects progresses.

**(15) Deficit Balance**

At June 30, 2005, the City had a deficit balance in the Capital Projects Fund in the amount of \$54,584. The deficit balance will be eliminated through transfers from other funds.

**(16) Subsequent Event**

On February 6, 2006, the City approved a development agreement to assist in a residential subdivision project. Pursuant to the agreement, a maximum of \$236,350 in tax increment payments will be paid to the developer over a ten year period.

**City of Red Oak**

**Required Supplementary Information**

City of Red Oak  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total
<b>Receipts:</b>				
Property tax	\$ 1,971,911	-	-	1,971,911
Tax increment financing	89,074	-	-	89,074
Other city tax	584,980	-	-	584,980
Licenses and permits	80,412	-	-	80,412
Use of money and property	99,670	16,714	467	115,917
Intergovernmental	1,546,851	-	-	1,546,851
Charges for service	558,132	1,594,982	-	2,153,114
Special assessments	9,947	-	-	9,947
Miscellaneous	263,518	27,966	30,348	261,136
Total receipts	<u>5,204,495</u>	<u>1,639,662</u>	<u>30,815</u>	<u>6,813,342</u>
<b>Disbursements:</b>				
Public safety	1,731,635	-	34,753	1,696,882
Public works	576,699	-	-	576,699
Health and social services	16,098	-	-	16,098
Culture and recreation	690,502	-	-	690,502
Community and economic development	76,827	-	-	76,827
General government	115,442	-	-	115,442
Debt service	1,462,758	-	-	1,462,758
Capital projects	1,916,596	-	-	1,916,596
Business type activities	-	1,144,443	-	1,144,443
Total disbursements	<u>6,586,557</u>	<u>1,144,443</u>	<u>34,753</u>	<u>7,696,247</u>
Excess (deficiency) of receipts over (under) disbursements	(1,382,062)	495,219	(3,938)	(882,905)
Other financing sources (uses)	202,711	(172,260)	-	30,451
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,179,351)	322,959	(3,938)	(852,454)
Balances beginning of year	5,377,639	1,854,395	31,357	7,200,677
Balances end of year	<u>\$ 4,198,288</u>	<u>2,177,354</u>	<u>27,419</u>	<u>6,348,223</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
1,993,274	1,993,274	(21,363)
80,902	80,902	8,172
499,380	499,380	85,600
40,400	40,400	40,012
-	-	115,917
2,965,753	2,965,753	(1,418,902)
2,156,822	2,156,822	(3,708)
20,467	20,467	(10,520)
141,594	141,594	119,542
<u>7,898,592</u>	<u>7,898,592</u>	<u>(1,085,250)</u>
1,676,601	1,706,601	9,719
673,961	673,961	97,262
3,500	3,500	(12,598)
505,193	602,193	(88,309)
140,902	140,902	64,075
121,764	121,764	6,322
943,375	943,375	(519,383)
2,434,364	2,434,364	517,768
1,751,192	1,751,192	606,749
<u>8,250,852</u>	<u>8,377,852</u>	<u>681,605</u>
(352,260)	(479,260)	(403,645)
<u>172,260</u>	<u>172,260</u>	<u>(141,809)</u>
(180,000)	(307,000)	(545,454)
<u>5,794,925</u>	<u>5,794,925</u>	<u>1,405,752</u>
<u><u>5,614,925</u></u>	<u><u>5,487,925</u></u>	<u><u>860,298</u></u>

City of Red Oak

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$127,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the health and social services, culture and recreation and debt service functions.

**Other Supplementary Information**

City of Red Oak

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Emergency	Special Volunteer Fire and Rescue Association
Receipts:		
Property tax	\$ 28,294	-
Tax increment financing	-	-
Other city tax	1,842	-
Use of money and property	-	467
Charges for services	-	-
Miscellaneous	-	30,348
Total receipts	30,136	30,815
Disbursements:		
Operating:		
Public safety	-	34,753
Culture and recreation	-	-
Community and economic development	-	-
Total disbursements	-	34,753
Net change in cash balances	30,136	(3,938)
Cash balances beginning of year	-	31,357
Cash balances end of year	\$ 30,136	27,419
<b>Cash Basis Fund Balances</b>		
Unreserved:		
Special revenue funds	\$ 30,136	27,419
Permanent fund	-	-
Total cash basis fund balances	\$ 30,136	27,419

See accompanying independent auditor's report.

Revenue				Permanent		
Tax Increment Financing	Komarek Trust	Library Bequest	Library People's Art Projects	Cemetery Perpetual Care		Total
-	-	-	-	-	-	28,294
89,074	-	-	-	-	-	89,074
-	-	-	-	-	-	1,842
-	-	1,995	82	-	-	2,544
-	-	-	-	3,763	-	3,763
621	600	6,264	15	-	-	37,848
89,695	600	8,259	97	3,763	-	163,365
-	-	-	-	-	-	34,753
-	81	1,832	-	-	-	1,913
76,827	-	-	-	-	-	76,827
76,827	81	1,832	-	-	-	113,493
12,868	519	6,427	97	3,763	-	49,872
175,112	9,858	140,579	4,938	185,004	-	546,848
187,980	10,377	147,006	5,035	188,767	-	596,720
187,980	10,377	147,006	5,035	-	-	407,953
-	-	-	-	188,767	-	188,767
187,980	10,377	147,006	5,035	188,767	-	596,720

**City of Red Oak**

## City of Red Oak

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise - Landfill		
	Recycling	Superfund	Total
Operating receipts:			
Charges for service	\$ 40,303	32,241	72,544
Operating disbursements:			
Business type activities	33,001	2,033	35,034
Excess of operating receipts over disbursements	7,302	30,208	37,510
Cash balances beginning of year	1,553	83,357	84,910
Cash balances end of year	\$ 8,855	113,565	122,420
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 8,855	113,565	122,420

See accompanying independent auditor's report.

City of Red Oak  
Schedule of Indebtedness  
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Essential and general corporate purpose	Aug 1, 1997	4.75-5.20%	\$ 1,635,000
Essential corporate purpose	Apr 1, 1998	4.35-4.70	600,000
Essential corporate purpose	Jul 1, 1998	4.35-4.70	1,000,000
Essential corporate purpose	Jul 1, 2000	5.20-5.70	1,185,000
Essential corporate purpose	Nov 1, 2002	2.60-4.50	620,000
Essential corporate purpose	Nov 1, 2002	3.60-5.20	210,000
Essential corporate purpose	Jun 1, 2004	1.75-4.80	1,280,000
Total			
Revenue notes:			
Water refunding	May 1, 2003	1.65-2.40%	\$ 490,000
Total			
Bank loan:			
Fire truck	Oct 14, 2003	5.00%	\$ 26,000

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
1,185,000	175,000	1,010,000	60,223
270,000	270,000	-	12,493
550,000	100,000	450,000	25,110
895,000	110,000	785,000	49,393
580,000	345,000	235,000	20,865
170,000	40,000	130,000	7,860
1,280,000	20,000	1,260,000	52,828
<u>\$ 4,930,000</u>	<u>1,060,000</u>	<u>3,870,000</u>	<u>228,772</u>
<u>330,000</u>	<u>165,000</u>	<u>165,000</u>	<u>7,260</u>
<u>26,000</u>	<u>10,702</u>	<u>15,298</u>	<u>1,231</u>

City of Red Oak

Note Maturities

June 30, 2005

Year Ending June 30,	General Obligation Notes							
	Essential and General Corporate Purpose		Essential Corporate Purpose		Essential Corporate Purpose		Essential Corporate Purpose	
	Issued Aug 1, 1997		Issued Jul 1, 1998		Issued Jul 1, 2000		Issued Nov 1, 2002	
	Interest		Interest		Interest		Interest	
Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2006	5.00%	\$ 185,000	4.50%	\$ 105,000	5.40%	\$ 115,000	3.20%	\$ 45,000
2007	5.05	190,000	4.55	110,000	5.45	120,000	3.45	45,000
2008	5.10	200,000	4.60	115,000	5.50	125,000	3.70	50,000
2009	5.15	210,000	4.70	120,000	5.55	135,000	4.00	95,000
2010	5.20	225,000	-	-	5.60	140,000	-	-
2011	-	-	-	-	5.70	150,000	-	-
2012	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-
Total		<u>\$ 1,010,000</u>		<u>\$ 450,000</u>		<u>\$ 785,000</u>		<u>\$235,000</u>

See accompanying independent auditor's report.

Essential Corporate Purpose Issued Nov 1, 2002		Essential Corporate Purpose Issued Jun 1, 2004		Total	Revenue Notes Water Refunding Issued May 1, 2003	
Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount
4.40%	\$ 40,000	2.25%	\$ 25,000	515,000	2.40%	\$ 165,000
4.80	45,000	2.65	25,000	535,000		
5.20	45,000	3.00	30,000	565,000		
	-	3.25	30,000	590,000		
	-	3.45	30,000	395,000		
	-	3.65	105,000	255,000		
	-	3.85	110,000	110,000		
	-	4.00	115,000	115,000		
	-	4.15	120,000	120,000		
	-	4.30	120,000	120,000		
	-	4.45	130,000	130,000		
	-	4.60	135,000	135,000		
	-	4.70	140,000	140,000		
	-	4.80	145,000	145,000		
	<u>\$ 130,000</u>		<u>\$ 1,260,000</u>	<u>3,870,000</u>		

**Schedule 5**

City of Red Oak  
Schedule of Receipts by Source and Disbursements By Function -  
All Governmental Funds

For the Last Three Years

	2005	2004	2003
Receipts:			
Property tax	\$ 1,971,911	2,083,572	2,010,066
Tax increment financing	89,074	259,745	388,647
Other city tax	584,980	547,700	527,394
Licenses and permits	80,412	16,097	16,188
Use of money and property	99,670	76,739	99,181
Intergovernmental	1,546,851	876,268	955,452
Charges for service	558,132	424,815	407,150
Special assessments	9,947	7,867	44,611
Miscellaneous	263,518	280,962	285,603
Total	\$ 5,204,495	4,573,765	4,734,292
Disbursements:			
Operating:			
Public safety	\$ 1,731,635	1,702,066	1,605,572
Public works	576,699	514,779	907,959
Health and social services	16,098	13,339	3,175
Culture and recreation	690,502	492,602	584,342
Community and economic development	76,827	328,252	295,120
General government	115,442	118,595	122,687
Debt service	1,462,758	936,457	678,723
Capital projects	1,916,596	646,885	744,121
Total	\$ 6,586,557	4,752,975	4,941,699

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 9, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Red Oak's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Red Oak's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (C) are material weaknesses.

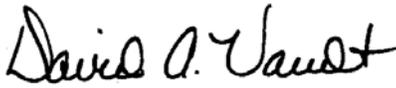
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Red Oak's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

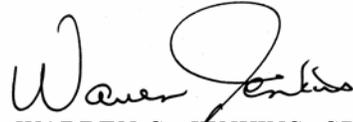
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Red Oak and other parties to whom the City of Red Oak may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Red Oak during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 9, 2006

City of Red Oak  
Schedule of Findings  
Year ended June 30, 2005

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from performing duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One of three individuals has control over utility receipts, including billing, collecting, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – City Clerk will review all activity for propriety. In addition, a copy of each deposit slip will be attached to the customer credit report and reconciled to the total. Each night, two persons will count cash and prepare the deposit. The reconciliation of billings, collections and receivables will be reviewed by someone independent.

Conclusion – Response accepted.

- (B) Information Systems – The following weaknesses in the City’s computer-based systems were noted:

- Passwords are not periodically changed. The City’s software does not require the user to periodically change log-ins/passwords.

The City does not have written policies for:

- Password privacy and confidentiality.
- Logging off unattended computers.
- Ensuring only software licensed to the City is installed on computers.
- Usage of the Internet.
- A disaster recovery plan.

Recommendation – The City should take steps to implement procedures to require periodic changes in passwords. The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems.

Response – We will adopt policies to cover these items.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2005

- (C) Bank Reconciliation and Clerk's Report – The City did not file monthly Clerk's Reports with the Council each month. The book balances were not reconciled to the bank balances after September 2004. Also, a large electronic fund transfer receipt was not recorded when received and was not identified because the reconciliation was not being performed each month.

Recommendation – The City Clerk and the City Treasurer prepared a year end report to establish the ending balances for the fiscal year ended June 30, 2005. Book balances should be reconciled to bank balances monthly and variances, if any, should be resolved timely. The Clerk and Treasurer should file monthly reports with the Council on a timely basis.

Response – We will reconcile bank and books balances monthly and will make sure that monthly reports are prepared timely and filed with the Council.

Conclusion – Response accepted.

- (D) Old Outstanding Checks – The City has many old outstanding checks dating back to January 1998. These are considered unclaimed property per Chapter 556.1(10) of the Code of Iowa.

Recommendation – The City should report any outstanding checks older than two years to the State Treasurer annually before November 1.

Response – We will clear all of these to the State Treasurer as soon as possible.

Conclusion – Response accepted.

- (E) Check Issued and Held – The City issued and held a check at year end to pay for a salt shed. The work was not completed for several months and the check was held until work was completed. Since the amount of the check was insignificant, the City did not adjust its fiscal 2005 financial statements.

Recommendation – In the future, checks should not be written and held prior to receiving the goods or services.

Response – We will discontinue this practice in the future.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2005

**Other Findings Related to Required Statutory Reporting:**

- (1) Official Depositories – A resolution naming official depositories has been adopted by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the health and social services, culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will amend in sufficient amounts in the future.

Conclusion – Response accepted.

- (3) Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The Mayor traveled to California, at a cost of \$416, for the dedication of a ship named for the City of Red Oak.

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by this disbursement before authorizing any further payments. The City should establish written policies and procedures, including the requirements for proper documentation.

Response – This was approved by the Council. The Council did not approve the bill when first presented because the Mayor was not at the meeting to explain the trip. The bill was later approved and paid.

Conclusion – Response acknowledged. In the future, the Council should document public purpose before authorizing any further payments and should establish written policies and procedures, including the requirement for proper documentation.

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2005

- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mike Wise, Firefighter/paramedic, owner of Midwest Fire & Fire Extinguisher	Fire extinguisher	\$ 173
Tom Pratt, Council Member, employee of Orscheln's	Supplies	5,602

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Midwest Fire and Fire Extinguisher do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year.

In the opinion of the City Attorney, the transactions with Orscheln's do not represent a conflict of interest since Mr. Pratt does not own the store and does not profit, directly or indirectly, from store sales.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted, except as follows:

Interest on investments made from the Debt Service Fund was not recorded in this fund. In accordance with Chapter 12C.9 of the Code of Iowa, interest earned on note proceeds and funds being accumulated for the payment of principal and interest should be used to pay the principal and interest as it comes due or be credited to the project fund for which the indebtedness was issued.

Recommendation – The City should record interest earned on investments from the Debt Service Fund in the Debt Service Fund as required by Chapter 12C.9 of the Code of Iowa.

Response – We will allocate any interest of this type to the appropriate account in the future.

Conclusion – Response accepted.

- (9) Water Revenue Notes – The City paid water revenue debt from the Debt Service Fund.

Recommendation – The City has made a corrective transfer as of June 30, 2005 to correct this error. Future water debt should be paid from the Enterprise, Water Revenue Sinking Account as required by the revenue note resolution.

Response – We will pay revenue debt from the appropriate Enterprise Fund in the future.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2005

- (10) Financial Condition – The Capital Projects Fund had a deficit balance of \$54,584 at June 30, 2005.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The normal year end transfers were not done this year due to the problems reconciling fund balances. When the transfers are made, the Capital Projects Fund deficits will be eliminated.

Conclusion – Response accepted.

- (11) Recycling and Superfund Charges – The charges for recycling and superfund on monthly utility bills were established by resolution. Utility rates are required to be established by ordinance.

Recommendation – The City should establish rates charged for utilities by ordinance.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

- (12) Annual Financial Report – The City did not complete or file the Annual Financial Report (AFR) with the Auditor of State by December 1 for the fiscal year ended June 30, 2005 as required by Chapter 384.22 of the Code of Iowa.

Recommendation – The City should complete and file the annual financial reports as required by Chapter 384.22 of the Code of Iowa.

Response – We will file the report with your office immediately.

Conclusion – Response accepted. The City filed the fiscal 2005 AFR on February 23, 2006.

- (13) Other Information Required by Water Revenue Note Resolution

Statistical Information Description	Amount
Number of water customers	2,877
Water rate schedule:	
Basic charge	\$5.50
0-4,000 cubic feet inclusive	1.90 per 100 cubic feet
Over 4,000 cubic feet	1.40 per 100 cubic feet
Bulk sales	.25 per 100 gallons

City of Red Oak

Schedule of Findings

Year ended June 30, 2005

Insurance – The following insurance policies were in force at June 30, 2005:

Insurer	Description	Amount	Expiration Date
Iowa Communities Assurance Pool	Comprehensive general liability: Bodily injury and personal injury Property damage and PSN injury	\$ 2,000,000	Sep 1, 2005
Iowa Communities Assurance Pool	Blanket property on buildings Blanket personal property	9,669,125 3,194,231	Sep 1, 2005 Sep 1, 2005
Iowa Communities Assurance Pool	Airport property	1,044,966	Sep 1, 2005
Iowa Communities Assurance Pool	Automobile coverage: Liability insurance: Each occurrence	2,000,000	Sep 1, 2005
	Uninsured motorists: Each accident	40,000	Sep 1, 2005
	Each member	40,000	Sep 1, 2005
	Municipal automobile: Physical damage	Amount of loss	Sep 1, 2005
Ace Property and Casualty Insurance Company	Products – completed operations Personal injury Malpractice aggregate limit Fire damage limit one fire Medical expense Hangarkeepers limit per occurrence Hangarkeepers limit one aircraft	1,000,000 1,000,000 1,000,000 50,000 1,000 1,000,000 200,000	May 12, 2006 May 12, 2006 May 12, 2006 May 12, 2006 May 12, 2006 May 12, 2006 May 12, 2006
Iowa Communities Assurance Pool	Boiler and machinery	11,881,286	Sep 1, 2005
Iowa Communities Assurance Pool	Inland marine: Contractors' equipment Computer equipment Fine arts	1,700,024 175,000 90,010	Sep 1, 2005 Sep 1, 2005 Sep 1, 2005
Iowa Communities Assurance Pool	Public officials liability: Each occurrence and aggregate	2,000,000	Sep 1, 2005
Nationwide Mutual Insurance Company	Public employees' blanket bond: Faithful performance blanket bond: Position bond Treasurer	20,000 80,000	Jan 1, 2006 Jan 1, 2006
Iowa Municipalities Workers' Compensation Association	Compensation limit Iowa Statute Part B	1,000,000	Jul 1, 2005
Iowa Communities Assurance Pool	Professional liability: Law enforcement officer: Each occurrence	2,000,000	Sep 1, 2005

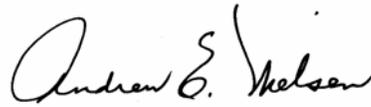
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City of Red Oak

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Joe M. Seuntjens, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, looped initial "A".

Andrew E. Nielsen, CPA  
Deputy Auditor of State